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RUEATRS/DEPARTMENT OF TREASURY WASHDC
RUEHJO/AMCONSUL JOHANNESBURG 7514
RUEHTN/AMCONSUL CAPE TOWN 4889
RUEH DU/AMCONSUL DURBAN 9210

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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER SEPTEMBER 28,
2007 ISSUE

11. (U) Summary. This is Volume 7, issue 39 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- SA Ranks Fifth for African Governance
- Construction Boom Causes Cement Shortage
- Man-days Lost to Strikes Increases
- SA's Unemployment Rate Remains Static
- From Table Mountain to the Big Apple
- SA Drops Six Positions in Rankings for "Ease of Doing Business"
- SA One of Least Corrupt African Countries
- Energy Summit Reviews 1998 Energy Policy
- Beware the Ties that Bind China and Africa

End Summary.

SA Ranks Fifth for African Governance

12. (U) A new ranking of African governance places South Africa fifth out of 48 sub-Saharan countries because of falling life expectancy and the high incidence of violent crime. Mauritius ranked first, followed by the Seychelles, Botswana and Cape Verde. The index was created by the Mo Ibrahim Foundation in collaboration with the Kennedy School of Government at Harvard. It measures governance in five broad categories: safety and security; the rule of law; participation and human rights; sustainable economic development; and human development. According to Mo Ibrahim Foundation board member Mamphela Ramphele, the index is "based on the notion that the chief legitimate purpose of a state is to deliver political goods to its citizens." Ramphele stressed that the index measures achievements, not promises. At the bottom of the list of 48 countries are Sudan, Chad, the Democratic Republic of Congo, and Somalia.
3. (U) The lawsuit, if successful, could be a catalyst for other mining companies to bring similar actions under SA law. The SA government recently announced it had extended the deadline for mining companies to file for compensation for the loss of mining rights by two years to avoid a deluge of filings before the current deadline of April 30, 2007. The extension will also allow potential claimants to obtain the results of the lawsuit before the claim deadline. (Business Day, September 26, 2007)

Construction Boom Causes Cement Shortage

13. (U) South African Reserve Bank Governor Tito Mboweni has

expressed concern that South Africa's construction boom has led to shortages of cement and other materials. "Sometimes I think there is too much construction happening," Mboweni told an audience at Rhodes University in Grahamstown, noting, "The consequences are that we have supply constraints." His comment came the day after the latest First National Bank (FNB) commercial property cost index revealed that building costs surged 29% y/y in the second quarter of 2007. FNB property analyst John Loos blamed the price surge on input supply constraints. "There is a shortage of building materials," Loos said. (Business Day, September 26, 2007)

Man-days Lost to Strikes Increases

14. (U) The number of man-days lost to strikes rose to 11.5 million in the first half of 2007, in part because of a long public sector strike. In comparison, only 1.6 million man-days were lost in the first six months of 2006. The previous high was during the apartheid era in 1987, when strikes focused on political rather than economic goals, and 9 million man-days were lost to strikes in the course of the year. With wage increases demanded by trade unions generally far above wage increases offered by employers in the first six months of 2007, the scene may be set for additional industrial action. (Quarterly Bulletin, South African Reserve Bank, September 2007)

SA's Unemployment Rate Remains Static

15. (U) According to Statistics South Africa, South Africa's unemployment rate was static at 25.5% in March -- virtually unchanged from a year ago and suggesting that faster economic growth

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is doing little to spur job creation. "Economic growth has not been particularly labor absorptive," said Standard Bank economist Shireen Darmalingam, noting, "The labor market remains in relatively poor shape." Including discouraged jobs seekers -- jobless people who haven't looked for work in a month -- the unemployment rate rose to 38.3% from 37% in September, Stats SA reported. Darmalingam calculates that the economy needs to add 558,000 jobs per year to reduce the jobless rate to 14% by 2014. Jobs have increased at an average annual rate of 500,000 over the last three years. However, only 197,000 jobs were created between March 2006 and March 2007. (Business Day, September 27, 2007)

From Table Mountain to the Big Apple

16. (U) Delta Air Lines, the only United States-based carrier operating between South Africa and the U.S., announced plans for a new route from New York to Cape Town, effective June 4, 2008. Subject to government approval, Delta plans to begin three weekly flights between Cape Town and New York's John F. Kennedy Airport, via Dakar. Delta already runs a daily service between Johannesburg and Atlanta. This new route is part of Delta's international expansion plans, which include new daily service between Atlanta/New York and Amman, Cairo, Edinburgh, Malaga, Tel Aviv, and Nairobi in 2008. (South African Press Agency, September 26, 2007)

SA Drops Six Positions in Rankings for "Ease of Doing Business"

17. (U) South Africa has lost its status as the easiest African country to do business, dropping six slots in the World Bank's annual study "Doing Business 2008" that compares the impact of regulations on business in 178 countries. According to the report, South Africa fell from 29th to 35th place because it has failed to cut red tape as quickly as other emerging markets. Mauritius has risen to 27th place to displace South Africa as the top-ranked African country. According to the World Bank's South Africa country office, the rankings were not a poor reflection on South Africa,

which remains a good place to do business. South Africa still ranks within the top fifth of countries evaluated and is ranked 9th for protecting investors. The National Credit Act helped South Africa improve its ranking for "getting credit" to 26th place, while more onerous regulations for registering property and paying taxes dropped South Africa's ranks in those categories to 76th and 61st place, respectively. Labor legislation was noted as a barrier to doing business. South Africa ranks 91st in the "ease of employing workers" category. (The Times and Business Day, September 27, 2007)

SA One of Least Corrupt African Countries

18. (U) South Africa is perceived to be one of the least corrupt countries in Africa, according to Transparency International's Corruption Report released on September 26. The Corruption Perception Index (CPI) ranks South Africa second, just below Botswana, for African countries. South Africa ranks 43 out of 180 states monitored. (Pretoria News, September 27, 2007)

Energy Summit Reviews 1998 Energy Policy

19. (U) The South African Department of Minerals and Energy organized a two-day Energy Summit September 24-25 to engage with stake-holders in reassessing South Africa's energy policy as set forth in the white paper on energy adopted in 1998. Speaking to reporters during the event, DME DG Sandile Nogxina said all areas of policy would be scrutinized. "We need to ask whether the assumptions that underpinned the policy of 1998 are still relevant," he noted. The white paper singled out deregulation and greater commercialization and competition as cornerstones of future policy. Nogxina stated that crude oil was now \$80 per barrel, compared to \$10 in 1998. He emphasized that the role of the state was critical in striking the healthy balance between the interests of capital and national objectives, like affordable access to energy for the population. The white paper concludes that there may be delays in achieving

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deregulation in the liquid fuels market, given growing energy supply concerns and failure to meet identified milestones. An accompanying editorial welcomed private participation in South Africa's growing power needs, marked by the appointment of an AES-led consortium to build two gas-fired power plants of 1,000 MW. The editorial noted that plans to unbundle and privatize state-owned Eskom have fallen by the way-side. Identification of Eskom as the single buyer of electricity and provider of a guaranteed off-take agreement may create the environment to attract independent power producers, targeted to provide 30% of new generation capacity over the next 20-25 years. (Business Day, September 26, 2007)

Beware the Ties that Bind China and Africa

110. (U) A Sunday Times editorial advised African countries to be careful in accepting gifts and increasing ties to China. The editorial noted that Deputy President Phumzile Mlambo-Ngcuka was leading a team of ministers in Beijing, trying to make sure South Africa gets its share of the aid, trade and skills development China is offering in return for fair and preferably preferential access to its resources. Describing a two-day conference in Cape Town studying the potential effect of China's deepening involvement in Africa, the writer quotes Chen Wenbing, First Secretary at the Chinese Embassy in Pretoria, as saying: "We are being told by our policy makers and government to take more care of the morality and to give more back to Africa. We are asking what we can do to improve the image of China in Africa." Panel participants compared China's overtures to countries that compete for Chinese economic aid or political backing to colonial-era locking up of resources. The editorialist ends by warning Mlambo-Ngcuka and her team to be wary of yet another bilateral deal that leaves neighbors in the cold. (Sunday Times, September 23, 2007)

